The Balanced Scorecard's Lessons for Managers

No need to wait for a companywide initiative—the key principles of this strategic-management system can be put to work in your unit right away.

REMEMBER Total Quality Management? Companies that implemented TQM found it complex and cumbersome, but also amazingly powerful in its ability to boost an organization's competitiveness. So it is with that more recent managerial methodology, the Balanced Scorecard. Large companies can take years and spend millions to implement the scorecard across their operations. But if the system takes root and thrives—not all implementation attempts do—the effects can be dramatic. The scorecard helped United Parcel Service post a 30%–40% increase in profitability in just a few years. It helped Mobil Oil's North American Marketing and Refining division move from last to first in its industry.

Just as wise managers didn't wait for a companywide TQM initiative to employ quality tools such as fishbone analysis (for determining causes of defects), managers today don't have to wait for a scorecard-inspired corporate transformation before learning—and implementing—some of the method's central ideas. Here are four lessons from the Balanced Scorecard that can be applied right away, in virtually any business unit or department:

1 Watch a variety of metrics

The scorecard originated in the perception that companies were paying too much attention to financial measures, which are easy to track and widely understood, and not enough attention to other, harder-to-quantify indicators of corporate health. After all, what does it profit a company to make its quarterly earnings goals if its customers are dissatisfied or its new-product pipeline is empty? Scorecard companies thus learn to assess their performance along a variety of measures that go beyond the purely financial—leading indicators like innovation rates as well as lagging ones like product-warranty costs, "soft" numbers like indices of employee morale as well as hard figures like market share.

Many organizational units need to learn the same lesson. Line managers, for example, often focus purely on making budget or hitting the month's shipping goal. These numbers are easily tracked, and they tend to be the measures senior executives scrutinize most closely. But if you're watching only one or two numbers, you may be ignoring other important measures of performance. How well is your unit satisfying its customers, internal or external? Are you improving your processes—reducing costs and cycle time, for instance—while building your capabilities for further improvements in the future? The Balanced Scorecard's four-category framework provides a convenient way of making sure that you're touching all the important bases *(see sidebar, next page)*.

2 Connect your metrics to strategy

Balanced Scorecard creators Robert S. Kaplan and David P. Norton argue that their invention is not a performance-measurement device, it's a strategic-management system. The difference is more than academic. Plenty of organizations (often inspired by TQM principles) have brainstormed laundry lists of "key performance indicators" (KPIs) and diligently chart their progress on each one. But too many KPI lists are just collections of good things to do, with no visible relationship to strategic priorities or to one another. If two indicators are in conflict—reducing defects versus boosting throughput, for example—employees don't know which to emphasize.

What sets the Balanced Scorecard apart from a KPI list is that it's based on a small number of strategic objectives, with subordinate goals and metrics feeding directly into those objectives. Take the scorecard developed by the HR department at GTE (now part of Verizon Communications) and described in a recent issue of *Workforce* magazine. One of the department's strategic goals is developing world-class leadership talent for the company. Scorecard measures derived from this goal track the acquisition, retention, and career-development path of individuals with high leadership potential. In effect, the scorecard lets HR staffers track the specific activities they must pursue in order to achieve the goal. It focuses their attention on what's happening to those up-and-coming leaders as well as on more conventional measures such as overall employee retention.

3 Develop a "strategic budget"

At most companies, the budget is the primary—often the only—tool used for yearly planning. If it isn't in the budget, it doesn't happen. But the vast bulk of every unit's budget is necessarily concerned with business as usual. Stay within your organization's budget guidelines and you're bound to achieve no more than incremental improvements in your operations.

In their new book *The Strategy-Focused Organization*, Kaplan and Norton urge Balanced Scorecard companies to adopt a "strategic budget" authorizing the initiatives necessary to attain scorecard targets. "The strategic budget," they write, "identifies what new operations are required; what new capabilities must be created; what new products and services must be launched; what new customers, markets, applications, and regions must be served; and what new alliances and

joint ventures must be established." A strategic budget lays out how you're going to go beyond business as usual. The advantage of the approach is that initiatives central to your strategy don't have to be folded into, or pirated from, the operating budget. The funding—and the objectives by which success will be measured—are in plain view for all to see.

4 Get everyone involved in tracking metrics

How many managers get their monthly or weekly financial reports, glance at them, then stick them in a drawer? Balanced Scorecard practitioners take a different approach. Because scorecard measures and objectives are out where everyone can see them, employees can more easily understand the connections between the objectives and what they do every day. Some companies tie incentive-compensation payouts to attainment of scorecard goals. The purpose, in Kaplan and Norton's words, is to "make strategy everyone's job."

One powerful tool that helps achieve this purpose: weekly management meetings focused exclusively on progress and obstacles. At FCI Supply Chain Solutions in Tulsa, Okla., for example, managers get a weekly one-page report consisting of nine scorecard-related measures, and spend time going over favorable and unfavorable variances. "It has provided a focus and mechanism for our Monday morning meetings and accountability for the group managers and their staffs," the company's CFO told the magazine *Strategic Finance*. The report is also posted on the company's intranet "to communicate strategic objectives and results to all employees."

At root, the Balanced Scorecard is a method that helps managers develop a well-rounded strategy and then get everyone in the company involved in implementing it. Putting a company-wide scorecard in place is thus a major challenge, which may be why more companies haven't yet succeeded in doing so. But unit managers can swipe some of the ideas right now and start implementing them. In the process, they may be able to help their organizations implement a Balanced Scorecard approach from the bottom up. ❖

Missed the Balanced Scorecard?

Where It Came From—and What It Is

Robert S. Kaplan is a professor at Harvard Business School, known in the past for his work on cost accounting and financial measurement. David P. Norton is a veteran management consultant. The pair teamed up in 1992 to publish a seminal article in *Harvard Business Review* introducing a concept they dubbed the Balanced Scorecard. Since then they have published many more articles and a best-selling book; a second book is out this fall. They have given countless speeches, put on numerous conferences and training programs, and consulted with dozens of companies. Their firm, the Balanced Scorecard Collaborative (Lincoln, Mass.), provides information and training resources, including the newsletter *Balanced Scorecard Report* (published jointly with Harvard Business School Publishing). More than most management ideas, the scorecard has been a two-man show—which hasn't kept the idea from spreading to hundreds of companies, both large and small.

So what constitutes a Balanced Scorecard? Companies should have metrics in three areas other than financial, say Kaplan and Norton:

- The ***customer*** perspective refers to everything that measures value in the marketplace, including such common metrics as customer retention and product availability.
- The ***internal business process*** perspective includes measures such as defect rates, cycle times, and production costs.
- The ***learning and growth*** perspective refers to the company's capabilities, both human and technological: is it developing the capabilities it needs for growth and innovation in the future?

But the scorecard isn't just a set of metrics, it's a method of management. The metrics should spell out a company's strategy, argue Kaplan and Norton, and should be used to help everyone in the organization understand and carry out strategic priorities. Only thus will companies be able not just to create strategies but to implement them.

RESOURCES

The Balanced Scorecard: Translating Strategy Into Action
by Robert S. Kaplan and David P. Norton
1996 • Harvard Business School Press

Performance Drivers: A Practical Guide to Using the Balanced Scorecard
by Nils-Göran Olve, Jan Roy, and Magnus Wetter
1999 • John Wiley & Sons

The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment
by Robert S. Kaplan and David P. Norton
2000 • Harvard Business School Press

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www.hbsp.harvard.edu
(browse "Balanced Scorecard")
www.bscol.com

Reprint # U0010B

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